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C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 001010

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TAGS: ECON ETRD EFIN PGOV PREL TW CH
SUBJECT: TAIWAN OVERVIEW OF CROSS-STRAIT ECONOMIC AGENDA

REF: A. TAIPEI 979 AND PREVIOUS
1B. TAIPEI 921

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Classified By: Economic Chief Hanscom Smith for reasons 1.4 (b) and (d)

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11. (C) SUMMARY. In recent meetings with AIT ECON staff, Taiwan authorities responsible for cross-Straits economic issues have outlined a wide-ranging program that includes expansion of cross-Straits passenger charter flights, establishing cargo and shipping links, and unilateral Taiwan measures to relax restrictions on investment and financial transactions with the PRC. Taiwan authorities note that progress may be slowed in the short term by PRC preoccupation with the Beijing Olympics, but are planning on another round of Straits Exchange Foundation (SEF) - Association for Relations Across the Taiwan Strait (ARATS) talks before the end of the year. An ambitious program is straining Taiwan's economic and cross-Straits bureaucracies, and there does not appear to be a single official or body coordinating Taiwan's strategy. END SUMMARY.

Overall cross-Straits negotiating agenda

12. (C) In a recent meeting with Economic Chief, Mainland Affairs Council (MAC) Vice Chairman Fu Don-cheng noted that Taiwan's Straits Exchange Foundation (SEF) and the PRC's Association for Relations Across the Taiwan Strait (ARATS) have agreed to address the following priority issues: 1) cargo charters; 2) expansion of passenger charters; 3) new charter routes; 4) expansion of the three "mini-links" facilitating travel between Kinmen/Matsu and the PRC; 5) direct shipping links; 6) law enforcement coordination; and 7) earthquake research.

13. (C) Fu explained that although the Ma administration would

like to accelerate progress on cross-Straits economic integration, the PRC is now preoccupied with the Beijing Olympics, and is advocating a slower timetable. Fu described the Ma administration's cross-Straits economic policy as somewhat "chaotic." After limited progress during the Chen administration, he observed, the Ma team has quickly adopted an ambitious agenda that is taxing a Taiwan bureaucracy accustomed to the slower pace of opening that typically prevailed under the previous administration.

How negotiations work in practice

¶4. (C) SEF Vice Chairman and Secretary General Kao Koong-lian explained that SEF and ARATS, its PRC counterpart, have established protocols for direct communication at three levels. The highest level is between SEF Chairman P.K. Chiang and ARATS Chairman Chen Yun-lin. The next-highest level is between Kao and his counterpart at ARATS, Vice Chairman Zheng Li-zhong. At the next level down, the several deputy secretaries general in both organizations communicate on specific issues such as charter flights or maritime cargo. Kao told us that frequent phone calls and e-mails between SEF and ARATS counterparts are helping to set the agenda for the next round of talks.

¶5. (C) According to Kao, at the direction of the Executive Yuan, the MAC convenes a task force comprising relevant ministries responsible for specific areas (i.e., the Ministry of Economic Affairs for investment, the Ministry of Transport and Communications for flights, etc.), as well as private sector representatives if appropriate, to prepare recommendations for negotiating positions, which are then

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conveyed to the SEF. The SEF is not involved in developing policy on unilateral Taiwan measures, such as easing restrictions on investment in China, and only plays a role in issues requiring cross-Straits coordination. MAC Vice Chairman Fu told us that National Security Council (NSC) Chairman Su Chi, working in close cooperation with President Ma and Premier Liu Chao-shiun, also plays a prominent role in formulation cross-Straits economic policy.

Issue-specific updates

¶6. (C) PASSENGER FLIGHTS: On July 4, cross-Straits weekend charter flights began operation (ref a). During the July 4-7 inaugural period, a total of 36 roundtrip charter flights carried some 12,500 passengers across the Strait, with approximately 6,500 traveling from Taiwan to China, and about 6,000 from China to Taiwan. We know of at least one foreigner - a Beijing-based American - who was able to book and take a flight from the Mainland to Taiwan without difficulty. According to the SEF's Kao, Taiwan originally proposed a total of 48 roundtrip flights per weekend, but Beijing wanted to limit the number to 36 "because of the Olympics." Kao noted that, if demand for the weekend charters grows, then at the next round of SEF-ARATS talks, Taiwan will propose an increase in the number of weekend charters. Kao stated that during the next talks, which may be held as soon as October or November, Taiwan will seek China's agreement on establishing new cross-Straits passenger flight routes which would not require passing through the Hong Kong flight information region, thus reducing travel time for the weekend charter flights and making them more attractive to both Taiwan and Mainland travelers.

¶7. (C) MAC Vice Chairman Fu told us that during the June 11-13 SEF-ARATS talks, ARATS proposed that Chinese travel agencies establish Taiwan branch offices to issue visas, prompting SEF representatives to suggest in turn that Taiwan travel agencies should instead perform this function. The two sides did not reach consensus on the issue, which touches on politically-sensitive sovereignty concerns and Fu expects

that it may take several years before foreigners will have the convenience of obtaining PRC visas in Taiwan.

¶18. (C) CARGO AND SHIPPING: According to Kao, Taiwan raised the issue of cross-Straight cargo flights during the June 11-13 SEF-ARATS talks in Beijing, but China was not prepared to engage in substantive discussion on the topic. In Kao's view, China's reluctance stems from PRC airlines' inability to compete with Taiwan carriers in the air cargo market. Kao added, however, that ARATS has agreed to include the air cargo issue in the next round of talks. In addition, said Kao, maritime cargo will also be on the agenda in future talks. He added that, at present, Taiwan plans to raise the opening of direct cross-Straight shipping only in regard to containerized cargo.

¶19. (C) FINANCIAL SECTOR: Kao noted that the MAC has convened a task force to examine financial liberalization measures, but added that the SEF has not yet been involved in the work of the task force. MAC Vice Chairman Fu told us that enhanced financial cooperation will largely depend on setting up a cross-Straight financial supervisory mechanism, but added that the PRC has thus far shown little interest in the subject. Kao opined that financial sector issues may not be raised in the SEF-ARATS talks until next year. Taiwan's Financial Supervisory Commission (FSC) is taking the lead on financial liberalization measures, most of which are unilateral, although some will eventually require SEF and ARATS to negotiate memoranda of understanding (ref b).

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¶10. (C) INVESTMENT: According to Vice Minister of Economic Affairs Shih Yen-shiang, Taiwan plans to liberalize restrictions on cross-Straight investment in three stages. First, the current 40%-of-net-worth cap on Taiwan firms' investment in the Mainland will be increased to 50%, tentatively as soon as mid-August, and then to 60% at an unspecified future date. Second, Taiwan will ease restrictions on high technology investments, including in the semiconductor and TFT-LCD sectors, as well as petrochemical investments such as naphtha crackers. The second stage is slated to be completed by the end of September. Third, Taiwan will allow PRC investment in Taiwan. Shih indicated that this issue has not yet been the subject of detailed interagency discussion, and predicted that reforms in this area would not be implemented until October or November. Shih added that an eventual fourth stage, at an undetermined future date, would encompass industrial cooperation, possibly to include official facilitation of private sector joint ventures on solar energy technology, as well as technical concerns such as standards harmonization.

¶11. (C) TOURISM: The MAC's Fu told us China is initially targeting 1-2,000 PRC visitor arrivals in Taiwan a day, and will incrementally increase that figure to 3,000 tourists per day. In the past, noted Fu, Taiwan's Travel Agent Association (TAA) received visitor applications from PRC travel agencies and forwarded them to the National Immigration Agency (NIA). Under new arrangements, however, individual PRC visitor travel applications can now be submitted directly for NIA approval, while group applications must still go through the TAA.

¶12. (C) In addition to his new responsibilities for cross-Straight deregulation (see below), Minister of State Chu Yun-peng has also been assigned to develop an interagency task force designed to facilitate and oversee Mainland tourism, with a special emphasis on business development, health, immigration, and other related concerns. For example, he explained, Taiwan hopes to target PRC tour groups with tailored packages devoted to special interests such as cuisine, cultural sites, or even groups of newlyweds interested in having their wedding photos taken in Taiwan. PRC tourists will still be required to travel in organized groups of at least ten tourists, he noted, but will be

allowed some relatively unstructured time to shop. In the past, he continued, Mainland tourists have not typically been involved in security problems, such as politically-motivated scuffles with Taiwan residents, and the Taiwan authorities want to ensure that will continue to be the case as visitor numbers rise. Chu also said Taiwan wants to improve coordination on immigration, public health, and other concerns linked to the expected influx of Mainland tourists.

What's next on the agenda?

¶13. (C) According to Minister of State Chu Yun-peng, President Ma has asked four ministers to organize task forces dedicated to cross-Straits deregulation. In addition to Chu, the ministers are Council for Economic Planning and Development (CEPD) Chairman Chen Tian-jy, Minister of State Tsai Shuin-hsiung, and Minister of State Fan Liang-shiu, who also serves as Chairman of the Public Construction Commission. Chu said that planning is now in the preliminary stages, and specific agenda items and areas of responsibility have not yet been determined.

¶14. (C) MAC Vice Chairman Fu noted that Taiwan has tried to revive its longstanding proposal to enhance cross-Straits

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cooperation on financial crimes, but China has not yet expressed interest. Taiwan's efforts to set up a mechanism for exchanging medical information has also elicited little enthusiasm on the PRC side, he added. Separately, Vice Minister of Education Lu Mu-lin told us that Taiwan is conducting interagency consultations on cross-Straits educational policy, but has not yet reached an internal consensus on such issues as recognition of PRC degrees, or whether or not to allow Chinese students to attend Taiwan universities.

¶15. (C) SUMMARY. The successful launch of weekend passenger charter flights has gotten the Ma administration's cross-Straits economic program off to a positive start, and despite the inevitable bureaucratic growing pains, plans are well underway for continued expansion of economic ties with the PRC. END SUMMARY.

YOUNG